

**Testimony of Francis X. “Skip” Frantz  
Chairman of the USTelecom Association  
To the House Energy and Commerce Committee  
“Universal Service: What are We Subsidizing and Why? Part 1: The High-Cost Fund”  
Washington, D.C.—June 21, 2006**

Good afternoon, Mr. Chairman, members of the committee. My name is Skip Frantz. I am Chairman of the newly-formed Windstream Corporation. This company is the result of the pending spin-off by Alltel Corporation of its wireline voice, data and video business and the concurrent merger of that business with Texas-based Valor Communications Group. Upon completion of this transaction, which is scheduled to occur in mid-July, Windstream will be the largest telecommunications provider in the U.S. focused on delivering voice, data and entertainment services to rural America. I am proud of the new company, its mission and its plans to deliver innovative services to customers across our market areas in 16 states.

But I appear before this committee today in a different capacity—as Chairman of the USTelecom Association. USTelecom represents more than 1,000 communications companies—from the smallest rural telephone cooperatives in America to some of the largest communications service providers in the world. I feel privileged to appear in that capacity on behalf of our industry trade association and to have this opportunity to speak with you today about the future of communications in our country and the ongoing value of universal service.

Allow me to begin by thanking the members of this committee, particularly Chairman Barton, Subcommittee Chairman Upton and Congressman Rush, for your efforts toward updating the nation’s communications laws. Our companies, our customers—and, I suspect, even many of the cable companies, as well—appreciate your efforts to advance video choice legislation. The House floor vote two weeks ago was a beneficial, bipartisan vote in favor of competition and consumer choice and has helped generate real momentum, particularly in the Senate, where a mark-up now appears likely on video choice legislation this month.

It is estimated that real video choice in America would deliver more than \$8 billion in consumer savings in the first year alone. Removing barriers to competition in this area also would incent further vigorous investment in the nation’s broadband infrastructure.

As this committee well understands, the communications landscape is undergoing rapid and dramatic change as previously distinct technologies evolve and platforms come into direct competition. In this competitive environment, our member companies are united in our commitment to two guiding legislative principles:

- (1) We believe in reforms that advance market-based competition to ensure consumer choices, rather than outdated government policies, dictate which technologies and companies succeed in the marketplace; and
- (2) We believe the time has come to reform universal service to ensure affordable, reliable telecommunications for all Americans in the 21<sup>st</sup> century.

Mr. Chairman, this unity is significant and, I believe, noteworthy in terms of your efforts today. USTelecom is unique in the breadth and diversity of its membership. We are the industry's central forum, representing small, mid-sized and large communications providers, including companies utilizing multiple technology platforms and companies serving urban, suburban and rural America. Although our member companies have differences, we stand united in our commitment to working with Congress to achieve these two objectives of delivering video choice to consumers and ensuring a stable, sustainable future for universal service.

Mr. Chairman, your hearing today asks a central and timely question: What are we subsidizing and why? In its purest form, universal service is a shared commitment to ensuring that all Americans—regardless of geography or income—have access to affordable, reliable communications. As our transition into an information-based society accelerates, this basic access becomes more and more important to the nation's economy and the opportunities it affords to our citizens.

The high-cost fund is essential to this vision of a ubiquitous network across a landscape as vast as the United States. It is a pact between the government and the private sector: Telecommunications companies provide essential communications services at reasonable and affordable rates...and high-cost support makes that possible by offsetting the exceptional costs of serving sparsely-populated areas.

In targeting sparsely-populated rural areas, high-cost support advances the goal of universal service in communities with costs that are significantly above the national average. Rural markets have much lower population densities than urban markets, often as little as 13 phone lines per square mile. This, of course, creates a straightforward economic challenge: The significant expense of building, maintaining and upgrading a large geographic network—and very few customers from which to recover its costs. The result, in the absence of universal service support, would be phone bills that are anything but “reasonable and affordable.” Prices in many parts of rural America would skyrocket and in a number of areas, service would be cost-prohibitive.

So if you believe in the goal of keeping the country connected through affordable, essential communications services, then universal service is, in a very real sense, more important today than ever before given the information age in which we now live. In spite of its urgent importance, however, it is in significant peril. Traditional sources of revenue are in steep decline. The historic core base of funding—long-distance revenues—is rapidly shrinking as consumers reap the benefits of much lower national and international calling plans—not to mention free alternatives, such as email, instant messaging and PC-to-PC calling. From 2000-2004 alone, long-distance revenues declined by \$5 billion in the U.S.

At the same time, demands on the high-cost fund have increased. These demands result from needed reform of intercarrier compensation as well as the more expansive view taken by many states in recent years that universal service should subsidize not only service in remote areas—but competition. This latter view has often left the fund to subsidize not one provider, but two or more competing providers in areas where one provider would struggle to exist in the absence of subsidies.

The increasingly precarious revenue base of universal service and the concurrent rising demand for resources have combined to drive the USF contribution factor from 5.9% in the first quarter of 2000 to 10.9% in the first quarter of this year. USTelecom, alongside many on Capitol Hill, has grown increasingly concerned with the fund's diminished financial stability. We have long believed that the current system needs immediate reform. Our primary suggestions include: (1) broadening the base of contributors; (2) carefully targeting recipients; and (3) tapping government resources to speed broadband deployment.

Overall, both the Boucher-Terry legislation and universal service provisions in Sen. Stevens' communications legislation are consistent with the principles embraced by the USTelecom Board. And, Chairman Barton, we also thank you for accepting the Gutknecht/Stupak amendment to the COPE Act and express our appreciation for this acknowledgement of the broad support in the House for sustaining universal service.

The amendment, as you know, preserves the FCC's authority to require VoIP providers to contribute to universal service alongside their other voice competitors. Just a few years ago, very few people had even heard the acronym VoIP. Today in North America, there are more than 1,100 VoIP providers offering service and more than 7.4 million VoIP subscribers. It is important that all providers contribute in the same way to this shared national commitment to universal service.

Mr. Chairman, we appreciate your time and attention today. We appreciate the hard work of the committee and the staff on updating the nation's communications laws. We believe universal service has a vital, ongoing role to play ensuring that rural America has every opportunity to reap the full benefits of this new world of communications, and we look forward to working with you on sound policies that will ensure all Americans have access to affordable and reliable communications services.

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